AUSLEY MCMULLEN

Attorneys and Counselors at Law
123 South Calhoun Street
P.O. Box 391 32302
Tallahassee, FL 32301

P: (850) 224-9115
F: (850) 222-7560

ausley.com

April 1, 2025

**VIA ELECTRONIC FILING**

Mr. Adam J. Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re:Docket 20250026-GU - Petition for Approval to Modify its Swing Service Charge, Individual Transportation Service Rider, and Off-System Service Rate Schedule.

Dear Mr. Teitzman:

Attached for filing on behalf of Peoples Gas System, Inc. are the company's answers to Staff's First Data Request (Nos. 1-5) served via email on March 18, 2025.

Thank you for your assistance in connection with this matter.

Sincerely,

VLPonder

Virginia Ponder

VLP/dh
Attachment

cc: Kate McClelland, kmcclell@psc.state.fl.us

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing answers, filed on behalf of People Gas System, Inc., has been furnished by electronic mail on this 1st day of April 2025 to the following:

Ryan Sandy
Office of General Counsel
Florida Public Service Commission
Room 390L – Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
tsparks@psc.state.fl.us
sfarooqi@psc.state.fl.us
discovery-gcl@psc.state.fl.us

Brad Nelson
Gas South, LLC
5001 Celebration Pointe, 2nd Floor, Ste 220
Gainesville, FL 32608
Brad.nelson@gassouth.com

ATTORNEY

**1.** On page 16 of the petition, the utility discusses proposed modifications to Rider ITS.

a. Please state how many customers would move from Rider ITS to Rider NCTS.

b. Please provide projected bill impacts for the affected Rider ITS customers. Are their gas costs expected to increase, decrease, or remain the same under Rider NCTS (compared to Rider ITS), with the understanding that the gas is provided by unregulated third party marketers.

c. Please explain whether the company has considered establishing all qualifying new customers under NCTS, and grandfathering existing ITS customers under their existing agreements rather than moving the existing customers to NCTS.

**ANSWER:**

a. The number of customers that will move from Rider ITS (“ITS”) to Rider NCTS (“NCTS”) at the time of filing this response is projected to be 61 customers. This will leave 113 customers remaining as Rider ITS customers.

b. The bill impact for ITS customers transitioning to NCTS will vary based on the relevant rate class each customer is in. Bill increases will be due to the applicability of Peoples’ Swing Service Charge and of the capacity release at Peoples’ weighted average cost of capacity (“WACC”) to third-party marketers as shown in more detail in Peoples’ response to Question No. 3 (found below) of Staff’s First Data Request. These changes more adequately allocate costs incurred by the PGA across the various sales customer classes. These bill impacts will be driven by three specific factors, as outlined below.

i. <u>Swing Service Charge</u>: The bills of these customers will be subject to the swing service charge that currently applies to all NCTS customers. The revenue collected from this charge will offset the company’s costs to adjust the level of gas and interstate pipeline capacity nominated for delivery to Peoples’ system, thereby reducing costs passed through to sales customers (primarily benefiting the residential class) through the Purchased Gas Adjustment (“PGA”). The magnitude of this impact will vary based on the annual consumption of the affected customer. For example, as shown in the table below, a customer with lower usage that qualifies for service under the GS-3 rate schedule can expect a decrease in their bill of approximately $124 per month for swing service and a customer with greater usage that qualifies for GS-4 service can expect an increase to their bill of approximately $416 per month for swing service.

| ITS Rate Class (to switch to NCTS) | Annual Therm | Existing Charge | Proposed Charge | Bill Impact |
|---|---|---|---|---|
| GS-3 | 50,000 (min) | $216/month (ITS Admin Fee) | $92/month (swing charge with new proposed rates) | $124 decrease |
| GS-4 | 499,000 (max) | $216/month (ITS Admin Fee) | $632/month (swing charge with new proposed rates) | $416 increase |

ii. System Balancing Elimination: ITS customers who transition to NCTS will no longer be required to balance their measured quantities with their scheduled deliveries to the company which should offset some or all of the swing service expense.

iii. Purchased Capacity: The affected ITS customers will also be required to take capacity release from the company at the company's weighted average cost of capacity plus the NCTS Adder, which will be approximately $0.85/MMBtu. The capacity required to be taken from the company will replace the capacity the customer currently procures from its third-party marketer, optimizing the available capacity that is currently allocated to sales customers through the PGA. The company is unsure of the exact amount customers pay third-party marketers for capacity, but believes it varies monthly based on market conditions, which can be highly volatile. Some months may exceed $0.85/MMBtu, while others may be lower. However, the per-them commodity costs the customer pays to its third-party marketer should stay relatively the same.

c. No. The company did not consider establishing all qualifying new customers under the NCTS Transportation Program ("NCTS") nor did it consider grandfathering existing ITS customers or allowing them to retain their existing agreements instead of transitioning them to NCTS. The company believes that customers consuming over 500,000 therms per year are better suited to transport on Peoples' system via the ITS program since larger customers may require a greater amount of swing service. The tariff provisions of ITS establish operational controls that help maintain a reasonable balance between supply and demand, minimizing the need for additional swing services that could incur extra costs. Additionally, the company is requesting to move existing ITS customers using less than 500,000 therms annually to the NCTS transportation program because this transition will allow the company to allocate capacity from its existing portfolio of interstate pipeline capacity to a larger pool of NCTS customers.

This will enable a more equitable recovery of capacity expenses between transportation and sales customers, thereby reducing the amount of capacity expense recovered from sales customers (primarily within the residential classes) through the PGA.

**2.** On page 17 of the petition, the utility discusses proposed changes to the Off-System Service (OSS) rate schedule. Please respond to the questions below:

a. The utility cites conformity with other gas utilities' sharing mechanisms as the reason for the proposed change. Please explain whether there are any other reasons for the proposed change.

b. Please discuss the impact(s) the proposed change would have on the utility's earnings.

c. Please explain how the proposed change will impact the general body of rate payers and how the general body of ratepayers would benefit from a reduction in net revenues received as a credit through the PGA.

d. The table on page 25 of the petition shows the cost of OSS. Please describe the type of costs that are included in the amounts shown and how those costs are being recovered. Are they born 100 percent by the general body of ratepayers?

e. Please provide copies of all relevant information (e.g., testimony, discovery responses) from the 2002 rate case (Docket No. 020384-GU) that led to revising the sharing from 50/50 to 25/75.

f. Please see the chart indicated on page 11, paragraph 25, and provide the same breakdown for years 2015-2020.

g. 2022 is indicated to have significantly higher OSS sales and costs than the other years indicated. Please explain why.

h. Are third party marketers serving Rider ITS customers purchasing their own capacity or purchasing capacity released to them by Peoples? Please discuss.

**ANSWER:**

a. Peoples believes that altering the sharing mechanism optimizes the PGA capacity for the customer by decreasing the need for base rates in the currently filed Docket No. 20250029-GU for 2026. This reduction in base rates of approximately $5.2 million in 2026 provides longer-term savings embedded in base rates for customers and further places the burden of optimizing capacity on the company to achieve sufficient earnings of the regulated utility. With the proposed modification to the Rider ITS, the amount of overall system capacity available for OSS will be reduced by approximately 21,000 MMBtu per day. Changing the OSS margin sharing mechanism to 50/50 allows the company to maintain the revenue and the offset to base rate requirements referenced above.

b. The proposed change to the OSS sharing mechanism will result in an increase in the company's earnings to the extent such OSS materialize. However, the company projects to have a Return on Equity ("ROE") of 7.86, well below the Commission approved range, as reflected in the company's petition for rate increase (Docket No. 20250029-GU) and its 2025 Forecasted Surveillance Report filed on March 31, 2025. With the Commission's approval of the proposed modification to the OSS sharing mechanism, the company would be able to enhance the projected OSS revenue for 2026, thereby reducing the base revenue requirement and providing long-term savings embedded within base rates for customers. While this change has the potential to benefit customers in the long run through a reduction in base rates, it also increases company risk due to the unpredictable nature of off-system sales. The availability of open capacity is highly dependent on the daily and seasonal fluctuations in the company's customers' gas requirements. Nonetheless, it provides advantages for both customers and the company by optimizing available capacity when excess capacity is available for sale by the company and market opportunities for the excess capacity arise.

c. Changing the OSS sharing mechanism from 25/75 to 50/50 may reduce the margin portion that lowers the company's gas cost and increase the amount customers pay through the PGA. However, as described above, the modifications to the ITS program will require those customers transferring from ITS to NCTS to take capacity release from the Company which will decrease the PGA and benefit sales customers. Therefore, the proposed modifications to the ITS program combined with the proposed modification to the OSS sharing mechanism provide a balanced approach to how the Company allocates costs and benefits between the Company, its sales customers and its transportation customers. As previously stated, the move to 50/50 sharing will offset the need for base rates in 2026.

d. The table on page 11, paragraph 25 of the petition includes the cost of the natural gas commodity and associated variable costs, such as fuel and usage charges, imposed by the upstream transportation providers. These variable costs fluctuate based on the volume of gas transported. This does not include upstream costs covered by the OSS customer.

The company recovers these costs by flowing them through the company's PGA and netting them with the OSS revenue, ensuring that PGA rate payers are not bearing these costs. The margin between the OSS revenue and OSS costs is then shared between the PGA customer (through a reduction in PGA costs) and the company (OSS Revenue).

e. Peoples completed a thorough search of the documentation associated with the company's 2002 Rate Case (Docket 02-0384-GU). While the company did not locate any discovery responses relating to the revision of the sharing mechanism, the documents below are responsive to this request and are attached hereto.

i. Direct Testimony of Bruce Narzissenfeld on behalf of Peoples, Page 4 Line 14 through 17.

ii. Direct Testimony of Donna Deronne, CPA on behalf of the Citizens of the State of Florida, pages 13-15.

iii. Citizens' Prehearing Statement, page 12, Issue 31.

iv. Rebuttal Testimony of Wraye J. Grimard on behalf of Peoples, page 1 line 19 through page 7 line 5.

v. Hearing Transcript, Page 61 Line 19 through Page 68 Line 1 and Page 73 Line 21 through Page 75 Line 9.

vi. Final Order, Page 6, Paragraph V(E).

f. The table below shows the total off-system sales, the costs associated with the off-system sales, the margins benefiting customers paying the PGA, and the margins retained by the company for the periods 2015 through 2020.

| YEAR | TOTAL OSS SALES | COST OF OSS | MARGIN TO PGA CUSTOMERS | MARGIN TO COMPANY |
|---|---|---|---|---|
| 2020 | $27,712,741 | $23,551,811 | $3,120,698 | $1,040,233 |
| 2019 | $54,803,251 | $49,552,396 | $3,938,141 | $1,312,714 |
| 2018 | $77,980,331 | $69,351,502 | $6,471,622 | $2,157,207 |
| 2017 | $68,280,012 | $61,101,980 | $5,383,524 | $1,794,508 |
| 2016 | $72,277,057 | $61,731,371 | $7,909,265 | $2,636,422 |
| 2015 | $49,421,862 | $43,091,048 | $4,748,110 | $1,582,703 |

g. The company's higher OSS revenue and cost in 2022 was primarily driven by significantly higher natural gas prices when compared to other years in the most recent 10-year period. According to the U.S. Energy Information Administration, the U.S. natural gas spot price at the national benchmark Henry hub in Louisiana had its highest average since 2008 in 2022. The higher natural gas prices can be primarily attributed to the previous winter in February 2021, when Winter Storm Uri brought sustained, record-low temperatures, and widespread freezing and icing in Texas. Significant natural gas infrastructure froze, leading to a 30 percent reduction in gas production, triggering outages impacting more than four million customers and leaving some without power for days. Considered to be one of the biggest power outages in U.S. history, Winter Storm Uri spurred leadership changes at the Public Utility Commission of Texas and Electric Reliability Council of Texas ("ERCOT"), along with several adjustments within the ERCOT market. Other reasons for the increase in prices can be attributed to production freezes early in the year, high net withdrawals from storage to meet weather-related demand, and rising liquefied natural gas ("LNG") exports to Europe.

h. Rider ITS customers procure their capacity either by purchasing it directly from the interstate pipeline, through a third-party marketer, or in certain instances, by receiving a capacity release from Peoples. Peoples releases capacity to third-party marketers under specific market conditions, which benefits the general sales customers of the PGA by lowering the overall capacity costs associated with the PGA. Upon Peoples release of capacity to a third party marketer we no longer have discretion on how that capacity is marketed.

significantly reduced as a result of increased growth and focus on utility operations, the elimination of propane and sales and service businesses, and outsourcing of sales and marketing functions.

**Q. WHAT IS THE AMOUNT OF NET OPERATING INCOME ("NOI") FOR THE HISTORIC BASE YEAR?**

A. The calculation of the historic base year NOI is contained on MFR ScheduleC-1. Certain adjustments were made to the base year data to arrive at an adjusted NOI of $35,166,237.

**Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT WERE MADE TO THE HISTORIC BASE YEAR NOI.**

A. Items that are recoverable through cost recovery mechanisms, as opposed to through base rates, have been removed from the calculation of NOI; that is, all fuel revenue and expenses and energy conservation revenue and expenses have been removed. Off-system sales have been removed from the calculation of NOI as they are sporadic, opportunistic transactions for the Company that are highly dependent on market conditions and are not reflective of on-going utility operations. In addition, depreciation and amortization expense was adjusted for the effect of the rate base adjustments referred to earlier.

**Q. HAS A COMPARISION BEEN MADE OF OPERATIONS AND MAINTENANCE ("O&M") EXPENSES FOR THE 2001 HISTORIC BASE YEAR VERSUS THE BENCHMARK OF THE O&M EXPENSES IN THE HISTORIC BASE YEAR IN PEOPLES' LAST RATE CASE?**

A. Yes. O&M expense for the historic base year in the current case is example, a strategic alliance with Forms Management has eliminated the need to inventory large quantities of special forms in house. The response also indicates that: "Pipes, valves and fittings standardization has proven to reduce inventories by 50%" and that "PGS formed a Strategic Alliance with a Supplier who houses all of our code-approved items and ships to us on an as needed basis..." The response indicates that the strategic alliance has allowed the Company to have a just-in-time inventory.

IV. NET OPERATING INCOME

Off-System Sales

Q. PGS REDUCED THE 2001 HISTORIC TEST YEAR REVENUES BY $2,796,913 TO REMOVE OFF-SYSTEM SALES. SHOULD OFF-SYSTEM SALES BE EXCLUDED FROM REVENUES IN THE PROJECTED TEST YEAR?

A. No, they should not. The Company's off-system sales have actually been increasing substantially in recent years. On Schedule C-2, I provide the off-system sales volumes in therms and the non-fuel revenue amount for off-system sales, by month, for the period January 2000 through August 2002. I also provide a column showing the rolling twelve-month total amount of non-fuel revenues for off-system sales. As shown on that schedule, even during a period of high gas costs in 2001, the rolling twelve-month total of off-system sales have steadily increased. The portion of non-fuel off-system sales included in base rates should be reflected in calculating the Company's revenue requirement in this case.

Under the Company's off-system sales rate schedule, 50% of certain gains are booked as revenues above the line to help meet revenue requirements, with the remaining 50% flowing back to ratepayers as a credit in the Purchased Gas Adjustment Clause. The amount included in regulated revenues should be included in the revenue requirement calculation.

Q. DID THE COMPANY EXPLAIN IN ITS FILING WHY OFF-SYSTEM SALES WERE BEING REMOVED?

A. Yes. Company Witness Bruce Narzissenfeld states that: "Off-system sales have been removed from the calculation of NOI as they are sporadic, opportunistic transactions for the Company that are highly dependent on market conditions and are not reflective of on-going utility operations."

Q. DO YOU AGREE THAT THE OFF-SYSTEM SALES ARE NOT A PART OF THE COMPANY'S ON-GOING UTILITY OPERATIONS?

A. No. As shown on Schedule C-2, the level of off-system sales has steadily increased on a rolling twelve-month total basis. In fact, for the most recent twelve months available, the annual non-fuel off-system sales revenue has increased to $3,711,488. No evidence or testimony has been submitted by the Company showing that it plans to discontinue making off-system sales. Profitable off-system sales of extra capacity should be pursued by the Company. No information has been provided showing that the Company intends to change its practice.

Q. WAS THIS ISSUE ADDRESSED IN THE INTERIM DECISION IN THIS CASE?

A. Yes. In the interim period in its MFRs, the Company removed $3.606 million from operating revenues for off-system sales. This amount was added back to revenues for purposes of calculating revenue requirement in the interim decision, Order No. PSC-02-1227-FOF-GU, dated September 9, 2002.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND TO REFLECT THE NON-FUEL REVENUES FOR OFF-SYSTEM SALES IN THE REVENUE REQUIREMENT CALCULATION?

A. I recommend that the most recent twelve-months of actual non-fuel off-system sales (i.e., the portion that does not flow through the Purchased Gas Clause) be included. As shown on Schedule C-2, this results in a $3,711,488 increase in revenues for off-system sales.

<u>TECO Partners - Marketing & Sales Charges</u>

Q. PGS WITNESS FRANCIS SIVARD ADDRESSES PEOPLES OUTSOURCING OF ITS SALES AND MARKETING FUNCTION AT PAGES 10 TO 11 OF HIS DIRECT TESTIMONY. DO YOU WISH TO COMMENT ON THE SALES AND MARKETING OUTSOURCING?

A. Yes. In his testimony, Mr. Sivard indicates that in 2002 Peoples outsourced its sales and marketing function. At pages 10 and 11 of his direct testimony, Mr. Sivard provides the following reasons for outsourcing the sales function:

> First, the outsource provider is dedicated to offering natural gas and other energy related products and services, which provides People's customers with 'one-stop' shopping and increases customer satisfaction. Second, the contract with the sales and marketing provider is a performance-based contract. If the provider doesn't achieve targeted sales levels, fees paid are proportionately reduced. Third, the Company feels that a dedicated sales and marketing company will be able to take advantage of synergies that will result in lower costs to Peoples.

adding projected revenues. This approach would zero-out the impact on revenue requirement. (DeRonne) (Staff POD 21)

ISSUE 30: Should revenues be adjusted to correct for an understatement in projected test year revenues?

STAFF PROPOSED
STIPULATION: Yes. Revenues should be increased $75,485 to correct for an understatement in projected test year 2003 revenues.

ISSUE 31: Should Off-System Sales be excluded from Jurisdictional Operating Revenues? (E. Bass, L. Romig)

Citizens' Position: No. Under the Company's off-system sales rate schedule, 50% of certain gains are booked as revenues above the line to help meet revenue requirements, with the remaining 50% flowing back to ratepayers as a credit in the Purchased Gas Adjustment Clause. The amount included in regulated revenues should be included in the revenue requirement calculation. These off-system sales have been increasing in recent years, and nothing shows that the Company intends to discontinue making off-system sales. Profitable off-system sales of extra capacity should be pursued, and no information has been provided to show that the Company intends to change its practice. Revenues should be increased by $3,711,488 to reflect the most recent twelve-month actual non-fuel off-systems sales as of August 2002. (DeRonne) (Citizens' Interrogatory 1)

ISSUE 32: What is the appropriate amount of projected test year total Operating Revenues? (L. Romig)

Citizens' Position: Total operating revenues should be $151,893,217. This is based on the projected test year amount included in the Company's filing of $148,181,729 plus off-system sales of $3,711,488. (DeRonne)

## EXPENSES

ISSUE 33 Should an adjustment be made to recognize any gains on disposition of utility plant? (L. Romig)

STAFF PROPOSED

# PEOPLES GAS SYSTEM

## BEFORE THE

## FLORIDA PUBLIC SERVICE COMMISSION

**Docket No. 020384-GU**

**In Re: Application for a rate increase by Tampa Electric Company d/b/a Peoples Gas System**

**Submitted for Filing:
11/12/2002**

## REBUTTAL TESTIMONY AND EXHIBIT OF:

## WRAYE J. GRIMARD
## On Behalf of Peoples Gas System

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Wraye J. Grimard. My business address is 702 North Franklin Street, Tampa, Florida 33602.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am Manager, Regulatory Planning, for Peoples Gas System ("Peoples" or the "Company").

**Q. ARE YOU THE SAME WRAYE J. GRIMARD WHO HAS PREVIOUSLY FILED DIRECT TESTIMONY ON BEHALF OF PEOPLES IN THIS PROCEEDING?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. My rebuttal testimony is directed to several adjustments proposed by OPC witness Donna DeRonne. Those proposed adjustments are an increase in 2003 projected test year revenues of $3,711,488 for off-system sales, removal of $250,000 in expenses associated with the Company's new Single Appliance Retention Program and, if the Company's proposed 3.5% credit card fee is approved by the Commission, a reduction of $240,004 for credit card fee expenses paid by the Company.

**Q. WHAT ADJUSTMENT HAS MS. DeRONNE PROPOSED WITH RESPECT TO OFF-SYSTEM SALES REVENUE IN THE PROJECTED TEST YEAR?**

A. Ms. DeRonne has recommended that a total of $3,711,488 for off-system sales, based on the twelve months ended August 31, 2002, be included in the Company's revenues for the projected test year.

**Q. IS THIS AN APPROPRIATE ADJUSTMENT?**

A. No. Ms. DeRonne's proposed adjustment fails to consider that off-system sales are sporadic, opportunistic transactions that are highly dependent on natural gas supply and demand related market conditions both within and outside of the state of Florida. Her analysis is made without addressing any market considerations that must be addressed in order to determine and quantify Peoples' future ability to make off-system sales in any amount. Ms. DeRonne's testimony implies that the only factors to be considered are the Company's past performance in making off-system sales and the Company's desire to continue to offer off-system sales in the future. While Peoples does desire to take advantage of off-system sales in the future, Peoples' *desire* to make future off-system sales must not be confused with whether or not market conditions will provide Peoples with the *ability* to make such sales in the future. The fact is that market conditions expected to exist in the projected test year and beyond will make it very difficult for Peoples to make off-system sales at a level even approaching the level suggested by Ms. DeRonne's proposed adjustment.

**Q. PLEASE DESCRIBE THE MARKET CONDITIONS THAT WILL MAKE IT DIFFICULT FOR PEOPLES TO MAKE FUTURE OFF-SYSTEM SALES.**

A. Market conditions will make the level of off-system sales that Peoples can make very uncertain. In the past three years, the relationship between interstate pipeline capacity and electric generation within the state has allowed Peoples to be fairly successful in the off-system sales market. This has been true for two reasons. First, the interstate pipelines serving Florida have been at or above capacity throughout the summer months, making Peoples' secondary/off-system sales capacity more valuable and therefore marketable. Second, electric generators have increasingly sought to rely on <u>economically</u> priced natural gas as a fuel to produce electricity. Peoples had been able to pursue off-system sales on both the Florida Gas Transmission (FGT) system and the Southern Natural Gas system because both pipelines were constrained in the summer months due to the gas requirements for electric generation, thus making the electric generation market a natural fit for Peoples' secondary/off-system capacity.

However, these past conditions are not reflective of current or forecast conditions. There are currently pipeline expansions underway on the interstate pipelines serving Florida and Georgia that will significantly increase available interstate pipeline capacity in Peoples' major off-system sales markets. Experience has shown that expansions such as these create a "glut" in natural gas pipeline capacity that will adversely affect Peoples ability to market off-system sales.

To further exacerbate the non-marketability of Peoples' off-system sales, a new incremental pipeline -- which targets electric generators as its prime shippers -- began limited service in June 2002. This new pipeline made approximately 12 million therms of incremental capacity per day available in peninsular Florida. The new incremental pipeline currently has an interconnection with FGT and another is planned in the near future. These interconnections will allow shippers on both the FGT and new incremental pipeline to undercut Peoples' off-system capacity by effectively segmenting the FGT system. In addition, interstate pipelines that are not fully subscribed such as the new incremental pipeline will offer significant interruptible discounts to electric generators, which will undercut Peoples' ability to compete for future off-system sales. Without question, these expansions, subsequent interconnections, and interruptible sales by the interstate pipelines will make Peoples' secondary/off-system capacity substantially less marketable. Peoples also expects a "glut" in capacity because many of the merchant electric generators that were once proposed to be built in Florida have been abandoned or delayed indefinitely subsequent to the construction of interstate capacity to accommodate their needs. Examples of these delayed and cancelled projects are CPV Gulfcoast, Ltd. located in Manatee County, PG&E Generating located in Okeechobee County, Panda Midway Power Ventures – Fort Pierce located in St. Lucie County, CPV Atlantic, Ltd. located in St. Lucie County and Calpine Blue Heron, located in Martin County. These cancelled projects represent approximately 7 million therms <u>per day</u> of capacity that will be unutilized in the foreseeable future.

Separate and apart from the interstate capacity situation in Florida, Peoples' off-system sales have always been sporadic because electric generators, which are the prime market for these sales, are typically economically dispatched. This means they generate electricity by utilizing the most economical fuel first. Most of the generators in the state are dual fuel, meaning that if natural gas is not economically priced, the generators will burn another (alternative) fuel. Therefore, when oil prices are more favorable than natural gas prices, Peoples loses the ability to market off-system sales.

Q. **DO YOU AGREE THAT SOME LEVEL OF OFF-SYSTEM SALES REVENUES SHOULD BE INCLUDED IN PEOPLES' PROJECTED TEST YEAR REVENUES?**

A. No.

**Q. WHY DID THE COMPANY NOT INCLUDE OFF-SYSTEM SALES REVENUES IN ITS PROJECTED TEST YEAR?**

A. Peoples did not include revenue in the projected test year for off-system sales because, despite Peoples' desire to make off-system sales, it is highly unlikely that the Company will be successful in making such sales during the test year. Exhibit ____(WJG-3) shows the effect of incremental capacity from the FGT system on Peoples' off-system sales margin over the past year. This exhibit reflects a better forecast of the level of off-system sales the Company would expect to make during the projected test year approximately $982,430 in annual margin revenue, <u>if only the FGT expansions I have mentioned were in place</u>; that is, if the new incremental pipeline did not exist. This $982,430 estimated annual margin revenue is calculated by multiplying the average annual off-system sales volume over the past four years by Peoples' projected off-system sales margin of $0.00922 per therm for the projected test year. The projected test year off-system sales margin was calculated by estimating the impact of <u>FGT's</u> most recent pipeline expansion on Peoples' 2002 off-system sales margin. I then projected the decrease in margin forward based on new FGT expansions to be completed in 2003. Please note, I would consider a forecast of $982,430 in off-system sales for 2003 to be optimistic because it does not factor in the expected abundance of capacity available on the new incremental pipeline system, the effects of segmentation on the interstate pipeline systems in Georgia and Florida, or the effect of the competition from unsubscribed capacity that will be sold as interruptible by the interstate pipelines.

My Exhibit ____ (WJG-3) shows Peoples' off-system sales from 1999 – just after the Company was first authorized to make such sales – projected through December 2002. Reference to this exhibit will confirm that Ms. DeRonne's proposed adjustment would utilize the highest level of off-system sales the Company has ever achieved. It should be recognized that the periods when increases in these sales shown on the exhibit occurred correspond with declining excess capacity available on the interstate pipelines serving Florida, as well as the increasing demands for gas for use in electric generation.

**Q. SHOULD THE COMMISSION'S DECISION RELATED TO OFF-SYSTEM SALES REVENUES IN THE INTERIM DECISION BE USED TO DETERMINE THE ADJUSTMENT TO 2003 PROJECTED TEST YEAR REVENUES?**

A. No. The Commission's treatment of off-system sales revenue in the interim part of this case has no bearing on this issue. When filing for interim rate relief, the Company and Commission must follow a "black and white" calculation as provided in Commission Rule 25.7040 regarding interim rate relief. The rule essentially takes a 12-month historic "snap shot" of rate base, expenses and revenues to determine the amount of interim relief. This "snap-shot" is based on historic, non-projected data. On the other hand, revenue requirements for permanent rates are based on reasonable projections of the Company's rate base, expenses, and revenues in the projected test year. Therefore, the amount of off-system sales revenue to be included in the Company's projections must be determined based on the circumstances that are likely to exist in the projected test year.

**Q. DOES PEOPLES AGREE WITH MS. DeRONNE'S PROPOSED ADJUSTMENT RELATED TO PEOPLES' NEW SINGLE APPLIANCE RETENTION PROGRAM?**

A. No. Ms. DeRonne recommends removal of $250,000 for the Single Appliance Retention Program because it "is not appropriate to increase costs by $250,000 for this proposed new program without also reflecting the projected increase in revenues resulting from the program."

Clearly then, Ms. DeRonne agrees that the $250,000 expense is appropriate if the increased sales associated with this program have been included in the Company's projections. In fact, the increased sales revenues associated with the program were included in the Company's projections.

**Q. HASN'T MS. DeRONNE SUGGESTED OTHERWISE?**

A. Yes; however, the Company respectfully disagrees with Ms. DeRonne's conclusion. Peoples' five-percent growth rate used in its revenue calculation is a higher growth rate than has ever been achieved by the Company. This higher percentage was proposed to reflect, in part, the expected increased sales associated with this program.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 22 is approved. Issue 23. It is staff's position in the prehearing order.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BRADLEY: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 23 is approved. Issue 25.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 25 is approved. Issue 26.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 26 is approved. Revenues. The first issue looks like Issue 31.

COMMISSIONER DEASON: Madam Chairman, I have a question. Is this the first time that we are going to officially recognize the sharing of off-system sales for Peoples? How has it been done prior to this? Has it been done through the fuel adjustment docket? How has that happened?

MR. WATSON: Commissioner Deason, Peoples' off-system sales schedule was approved back -- I want to say sometime during the year 2000, and it provides for a 50/50 sharing between the PGA and the company of any margin that is made on the sales of gas and capacity.

This proposal would include a half million dollars worth of the company's portion of the revenues in the revenues for the projected test year, but would change the sharing mechanism so that 75 percent of any margin made on a off-system sale is credited to the purchased gas adjustment, which would reduce the cost of gas primarily for residential and small commercial customer customers and the company would get to keep only 25 percent of it.

COMMISSIONER DEASON: So this stipulation includes a $500,000 adjustment to increase revenues associated with off-system sales, correct?

MR. WATSON: That is correct.

COMMISSIONER DEASON: Was there any amount included in the case to begin with? This is the total amount we are going to be recognizing?

MR. WATSON: This will be the total amount. We had included none in the projected test year for a lot of reasons that are gone into in Ms. Grimard's direct and rebuttal testimony.

COMMISSIONER DEASON: Now, is this stipulation going to have any effect in the way that we calculate amounts for fuel adjustment purposes, or is this all going to be self-contained within this rate base case?

MR. WATSON: Seventy-five percent of any revenues derived, or of the margin on off-system sales will go into the purchased gas adjustment calculation.

COMMISSIONER DEASON: So that would be an ongoing amount, correct?

MR. WATSON: Right. It will be whatever the amount is; 75 percent of the margin, if there is any. If there are sales, if there is a margin, will be credited as a reduction to the cost of gas and capacity in the purchased gas adjustment clause.

COMMISSIONER DEASON: Okay. Now, is that on amounts in excess of $500,000, or is it for all?

MR. WATSON: The 500,000 assumes that there would be -- let me see if I do my math right -- $2 million worth of margin total; 500,000 of it would be a credit to the company, the other million and a half would go into the PGA to reduce the cost of gas and capacity.

COMMISSIONER DEASON: Okay. I follow you.

CHAIRMAN JABER: But does the stipulation reflect -- the words of the stipulation don't reflect that, do they? It says the 75 percent customer share would flow back to the customers as a credit to the cost of gas in the PGA clause.

MR. WATSON: And of course this -- I guess you would have to look at the rate schedule that spells all of this out, which would take only a minor change. And I think they talk about the customer share being that portion which goes as a credit to the PGA as opposed to that which is included in the company's revenues as an offset to cost of service that is not covered by one of the adjustment clauses.

COMMISSIONER DEASON: In other words, you are recognizing 25 percent of these off-system sales above-the-line. And for the purpose of this rate case, the projected amount for 2003 is going to be $500,000.

MR. WATSON: That is correct.

CHAIRMAN JABER: Are you comfortable with the language of the stipulation, Commissioner Deason, in terms of not having confusion later?

COMMISSIONER DEASON: I think it could be clarified. Because to me it was not clear, and maybe it is just my own fault, but the $500,000 actually is the 25 percent share that is going to be treated above-the-line for purposes of this rate proceeding.

COMMISSIONER BRADLEY: Would it be helpful to include the customer's share?

COMMISSIONER DEASON: Well, the customer's share is going to be -- the 75 percent is going to be recognized in future fuel adjustment proceedings. The 25 percent share for the company is actually going to be recognized above-the-line, and it has the effect of reducing revenue requirements in this rate proceeding, is that correct, Staff?

MR. MAILHOT: Yes. We are reducing revenue requirements effectively by $500,000 through this.

COMMISSIONER DEASON: So in one sense of looking at it, the customers are getting benefits on both sides of it, both the fuel adjustment side and the base rate proceeding side.

MR. WATSON: That is correct.

COMMISSIONER BRADLEY: That's why I asked if it would be helpful just to explain, put a numerical figure on it.

COMMISSIONER DEASON: I think it would be good if we could explain. There is going to be an order recognizing the outcome of this. If that could be explained in the order, Commissioner, I think that would be helpful if we could explain that in the order.

CHAIRMAN JABER: We could do that, too. But in terms of the actual stipulation that we will be accepting today, how about we save this one until the very end and just give Staff time. Let Mr. Mailhot look at this stipulation and the wording.

COMMISSIONER DEASON: And just look at the wording?

CHAIRMAN JABER: Right.

COMMISSIONER DEASON: I have no problem with that. I certainly am in agreement with it in concept. I think maybe the language just could be clarified a little bit.

CHAIRMAN JABER: Mr. Mailhot, we are going to pass on Issue 31. Look at the very first sentence. If we could clarify that for this proceeding and future purchased gas adjustment clause proceedings off-system sale revenues would be shared. That would be the first clarification, isn't it, Mr. Watson?

MR. WATSON: Madam Chairman, I think the clarification is fairly easy, if I had a copy of the company's rate Schedule OSS, because I think if you simply had two sentences in this position that would start down -- the first would be starting at about the sixth line of what is before you, or the fifth line. It would say for purposes of setting rates in this docket, operating revenues should be increased $500,000 in the projected 2002 test year.

CHAIRMAN JABER: 2003 test year?

MR. WATSON: That would be the first sentence. The second sentence, I really can't craft for you right this second because I don't have the rate schedule there, but I think it would say something to the effect that the 50 percent that is now credited to the PGA in rate Schedule OSS would be increased from 50 percent to 75 percent, and the 50 percent referred to in that schedule that is included in the company's revenue above-the-line would be decreased from 50 percent to 25 percent.

CHAIRMAN JABER: Well, I'm going to give you time to work on that language. We are going to come back to Issue 31, if someone wants to hand you the schedule. We will come back to it. Does that affect our vote on Issue 32, Staff? It shouldn't.

COMMISSIONER DEASON: I think we can approve this number, because we're not changing the numbers, it's just the explanation. So I can move Staff on 32.

COMMISSIONER BRADLEY: And I don't disagree with that, but I was just wondering if it might further clarify if we put in the dollar amount, the customers' dollar amount or share.

CHAIRMAN JABER: I don't think we can, Commissioner Bradley. It is going to depend on what the calculation of off-system sales will be. Whatever that amount will be, there is going to be a 75/25 percent sharing methodology. Does that make sense? Whatever their off-system sales will be.

COMMISSIONER BRADLEY: Okay. And I guess where my confusion is is we do have a dollar amount for the company.

CHAIRMAN JABER: Right. But that is just for this proceeding. Because we know what -- for purposes of this proceeding we know what the amount is.

COMMISSIONER BRADLEY: Okay. I see it.

CHAIRMAN JABER: But absolutely I have reached the conclusion that the stipulation needs to be clarified, so it will help when we see the new language. Issue 32. There was a motion.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: And a second. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 32 is approved. Expenses, Issue 35.

COMMISSIONER DEASON: Move Staff.

CHAIRMAN JABER: There has been a motion.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: And a second. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 35 is approved. Issue 36.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: There has been a motion and a second on Issue 36. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 38.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: And a second. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 64 is approved. 66.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BRADLEY: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 66 is approved. 67 is the calculation of the interim rate.

COMMISSIONER DEASON: Move Staff.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves Issue 67.

Do you need just a couple of minutes to go back to the language proposed in Issue 31? Okay. We will give you just a few minutes.

CHAIRMAN JABER: In the meantime, Public Counsel, Ms. Kaufman, Mr. Wright, and Staff, if I have forgotten any issues, be kind to point them out to me, please.

(Off the record.)

CHAIRMAN JABER: Let's get back on the record. Mr. Watson, I asked you to work on new language for the stipulation related to Issue 31.

MR. WATSON: And I'm ready to proffer a new position on that.

CHAIRMAN JABER: Go ahead.

MR. WATSON: That position would be for purposes of setting rates in this docket, operating revenues should be increased $500,000 in the projected 2003 test year. The company's off-system sales service rate schedule -- strike that. The provisions of Special Condition 3 in company's off-system sales service rate schedule shall be amended to read as follows: Disposition of net revenues and transaction charges. For purposes of this Paragraph 3, net revenues shall mean the total nongas energy charges received by company for service pursuant to this rate schedule. Twenty-five percent of all net revenues shall be retained by company above-the-line as regulated revenues, and the remaining 75 percent of such net revenues and all transaction charges shall be used to reduce company's cost of gas recovered through the purchased gas adjustment clause.

CHAIRMAN JABER: Staff, you have had an opportunity to think about that new proposed language?

MS. VINING: Yes. We are satisfied with that language.

CHAIRMAN JABER: Okay. Ms. Kaufman, Mr. Wright, and Public Counsel?

MS. KAUFMAN: We have no position on this.

MR. MANN: Commissioner, Public Counsel is satisfied with that language.

CHAIRMAN JABER: Commissioners.

COMMISSIONER DEASON: I am satisfied with the language, and I can move approval of the stipulation with that language.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: And a second. All those in favor of approving the stipulated language on Issue 31 say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 31 is approved.

Now, Staff, have I covered all the issues?

MR. MAILHOT: Commissioner, there is one question that the company has raised. Concerning the issues where we have indicated they have been dropped, they have been dropped since, I guess, the time of the prehearing order, and I don't know if you need to acknowledge that these issues have been dropped, or vote on them, or what procedurally, but I think the company would like that recognized that these issues are dropped.

CHAIRMAN JABER: Sure. I don't know which ones were dropped before today and which ones today, so what I will do is just acknowledge for purposes of the record that there were issues that have been dropped by agreement of the parties.

MR. MAILHOT: Okay.

CHAIRMAN JABER: Does that satisfy your concern, Mr. Watson?

B. Since Peoples did not include conservation revenues, expenses or taxes - other in the projected test period no adjustment is necessary.

C. No adjustment to revenues to recognize the new credit card usage charge is required if revenues derived from the proposed credit card usage charge, included in the Company's rate design as Other Operating Revenues, are increased from $207,839 to $240,004 to match the expenses included in the 2003 projected test year.

D. Revenues should be increased $75,485 to correct for a mathematical error in calculating revenues, which resulted in an understatement in projected 2003 test year revenues.

E. For purposes of setting rates in this docket, operating revenues should be increased $500,000 in the projected 2003 test year. The provisions of Special Condition 3 in Peoples' Off-System Sales Service rate schedule shall be amended to read as follows:

> <u>Disposition of Net Revenues and Transaction Charges</u>. For purposes of this paragraph 3, "net revenues" shall mean the total Non-Gas Energy Charges received by Company for service pursuant to this rate schedule. Twenty-five percent (25%) of all net revenues shall be retained by Company above the line as regulated revenues, and the remaining seventy-five (75%) of such net revenues (and all Transaction Charges) shall be used to reduce Company's cost of Gas recovered through the Purchased Gas Adjustment Clause.

F. The appropriate amount of projected test year total operating revenues is $148,757,215.

G. The $346,466 gain on the sale of property located at 2951 SW 1st Terrace in Ft. Lauderdale should be amortized over 4 years beginning January 1, 2003, or a reduction in operating expenses of $86,617. In addition, working capital should be

**3.** Please provide a hypothetical calculation of the current and proposed Weighted Average Cost of Capacity (WACC). Please demonstrate how the WACC changes would affect a customer's bill, including an estimate for an average usage bill calculation.

**ANSWER:**

Below is a hypothetical calculation of the current and proposed WACC.

**Components for WACC Calculation**

| ID | Item | Value |
|---|---|---|
| 1 | Interstate Capacity Cost | $150,000 |
| 2 | Intrastate Capacity Cost | $5,000 |
| 3 | ITS Capacity Release Credits | $75,000 |
| 4 | Interstate Capacity Quantity | 300,000 |
| 5 | Intrastate Capacity Quantity | 15,000 |
| 6 | ITS Capacity Release Quantity | 150,000 |

**Calculation – Current Method**

| Line | Description | Value | Formula |
|---|---|---|---|
| 1 | Net Capacity Cost | $80,000 | ID 1 + ID 2 - ID 3 |
| 2 | Net Capacity Quantity | 165,000 | ID 4 + ID 5 - ID 6 |
| 3 | WACC | $0.4848 | Line 1 / Line 2 |

**Calculation – Proposed Method**

| Line | Description | Value | Formula |
|---|---|---|---|
| 1 | Net Capacity Cost | $80,000 | ID 1 + ID 2 - ID 3 |
| 2 | Net Capacity Quantity | 150,000 | ID 4 - ID 6 |
| 3 | WACC | $0.5333 | Line 1 / Line 2 |

The WACC is used to calculate two different NCTS rates that are charged by PGS and marketers: (1) the company's Swing Service Charge and (2) the third-party marketer's Transportation Capacity Charge.

(1) Swing Service Charge (by Company)

The Swing Service Charge calculation uses the WACC to determine the Reserve Capacity, which is one of several costs that are included in this charge. The table below shows the average bill impact to GS-1 to GS-5 customers from the proposed Swing Charge (using the proposed WACC methodology) compared to the existing Swing Charge (using the existing WACC methodology). The table below shows that the proposed change to the WACC methodology results in an increase in the bill for some rate classes and a decrease for others; however, this will ensure rate classes are paying a fair share of these costs.

| Rate Class | Average Annual Therm | Swing Charge (Existing Rate) | Swing Charge (Proposed Rate) | Annual Bill Impact | Monthly Bill Impact |
|---|---|---|---|---|---|
| GS-1 | 6,000 | $125 | $104 | -$21 | -$2 |
| GS-2 | 22,000 | $477 | $486 | $9 | $1 |
| GS-3 | 83,000 | $1,942 | $1,838 | -$104 | -$9 |
| GS-4 | 353,000 | $2,789 | $5,352 | $2,564 | $214 |
| GS-5 | 830,000 | $4,814 | $5,542 | $728 | $61 |

(2) Transportation Capacity Charge (by Third-Party Marketer)

The proposed WACC change will also affect the capacity release rate which is charged to NCTS customers by third-party marketers. The change will increase the NCTS capacity release rate from approximately $0.75/MMBtu to approximately $0.85/MMBtu, and the impact to bills will vary by usage. Again, the table below shows that the proposed change to the WACC methodology results in an increase in the bill; however, this will ensure rate classes are paying a fair share of these costs.

| Rate Class | Average Annual Therm | Transportation Cost (Existing Method) | Transportation Cost (Proposed Method) | Annual Bill Impact | Monthly Bill Impact |
|---|---|---|---|---|---|
| GS-1 | 6,000 | $450 | $510 | $60 | $5 |
| GS-2 | 22,000 | $1,650 | $1,870 | $220 | $18 |
| GS-3 | 83,000 | $6,225 | $7,055 | $830 | $69 |
| GS-4 | 353,000 | $26,475 | $30,005 | $3,530 | $294 |
| GS-5 | 830,000 | $62,250 | $70,550 | $8,300 | $692 |

**4.** Please explain "No Notice Transportation Service" and provide the relevant pages from the recent FERC rate case that address the updated rates.

**ANSWER:**

No Notice Transportation Service ("NNTS") is a firm rate schedule offered by, Florida Gas Transmission ("FGT"), to those receiving service from FGT (the "Shipper") under FGT Rate Schedule FTS-1 or SFTS. This service represents firm transportation service rendered by FGT within the Shipper's Maximum Daily Transportation Quantity ("MDTQ") under FGT Rate Schedule FTS-1 or SFTS. The level of NNTS represents the quantity by which the Shipper's actual natural gas deliveries may deviate from its scheduled deliveries. Daily deviations from the Shipper's daily scheduled FTS-1 or SFTS transportation quantities up to the Shipper's MDTQ are accumulated in a No-Notice Account each month, and the quantity is added to the amounts transported under FTS-1 or SFTS to determine the Shipper's applicable charges. The Shipper must pay a Reservation Charge in addition to appliable charges under the FTS-1 or SFTS Rate Schedules. FGT's No Notice Transportation Reservation charge is $0.050700/MMBtu.

FGT's No Notice Transportation Service as approved through the recent FERC rate case is described in the FGT's tariff Part V Rate Schedules, Rate Schedule NNTS, Version 2.1.0, pages 1-4, attached hereto and found at https://fgttransfer.energytransfer.com/InfoPost/tariff/fgt/FGTTariff.pdf.

# RATE SCHEDULE NNTS
## No Notice Transportation Service

1. AVAILABILITY

This Rate Schedule is a firm Rate Schedule and is available to any person (Shipper) receiving service from Florida Gas Transmission Company, LLC (Transporter) under Rate Schedule FTS-1 or SFTS, provided further that only Shippers which were customers of Transporter receiving service under Rate Schedule G, SGS, WPPS, or a direct firm sales contract as of May 18, 1992 are eligible for Initial NNTS subscriptions.

2. APPLICABILITY AND CHARACTER OF SERVICE

Service under this NNTS rate schedule shall represent firm transportation service that Transporter shall render within Shipper's MDTQ under Rate Schedule FTS-1 or SFTS, provided Shipper complies with the provision of Section 5 hereunder. The level of NNTS subscribed shall not increase or decrease Shipper's MDTQ under Rate Schedule FTS-1 or SFTS, nor increase or decrease Shipper's entitlement for firm transportation service, but shall represent the quantity by which Shipper's actual deliveries may deviate from scheduled deliveries under Rate Schedule FTS-1 or SFTS.

Service under this rate schedule may be relinquished pursuant to Section 18 of the General Terms and Conditions of Transporter's FERC Gas Tariff. Transporter's maximum obligation to deliver gas under this Rate Schedule shall be equal to the lesser of (a) Shipper's No Notice Quantity (NNQ), as separately stated for each Division, as such term is defined in Section 1 of the General Terms and Conditions, (b) Shipper's MDTQ (by division) under the FTS-1 or SFTS Service Agreement, or (c) the difference between the quantity scheduled by Shipper [by division] under Rate Schedule FTS-1, or SFTS and Shipper's MDTQ in (b) above.

3. REQUESTS FOR NO NOTICE SERVICE

Shipper's Initial NNQ shall be equal to the NNQ subscribed by month during the subscription period ending October 12, 1992. Prior to June 1993, Shipper may amend the no notice request to specify the distribution of Shipper's NNQ by division. Such NNQ shall be set forth on a revised exhibit to the applicable FTS-1 or SFTS Service Agreement.

A. Changes in NNTS Service Levels - Subject to the conditions below, Transporter shall accept changes in current NNTS service levels on an annual basis, not more than 60 days nor less than 30 days preceding each February 1 for changes to be effective each February 1. Transporter is not obligated to accept initial reductions to NNTS services pursuant to subsection (ii) hereinabove which exceed 50% of the aggregate level of NNTS service subscribed. If initial requests for changes in NNTS service levels pursuant to (ii) above result in an aggregate reduction of greater than 50% of the NNTS service then in effect, Transporter shall grant all requested increases to service levels, or shall prorate requests for increases if the total requested increases exceed Transporter's operational ability to provide the requested service, and individual requests for reductions of greater than 50% will be prorated; provided that a shipper's request for a reduction during a particular month or months will not be prorated if it is offset by an equivalent increase during another month or months. After the initial option period pursuant to subsection (ii) hereinabove, no limitations will apply to subsequent elections pursuant to the three-year option of subsection (ii). Transporter is not obligated to accept reductions to NNTS service on an annual basis pursuant to subsection (iii) hereinabove if such annual reductions would reduce the aggregate level of NNTS service subscribed. In the event annual requests for reductions to NNTS service exceed annual requests for increases to NNTS service, requests for increases will be granted and requests for reductions will be prorated. Changes to NNTS service levels requested pursuant to subsection (i) hereinabove shall become effective concurrently with the effectiveness of new rates implemented by Transporter reflecting such revised service levels. Changes to NNTS service levels requested pursuant to subsection (ii) hereinabove shall become effective on the first day of the third month following Shipper's notification to Transporter of Shipper's election to revise NNTS service levels. Provided further:

1. Transporter is operationally able to provide such service without additional facilities, unless such Shipper(s) agrees to reimburse Transporter for additional facilities pursuant to the provisions of Section 21D of the General Terms and Conditions;

2. Shipper submits a valid request for service under Section 3 of the FTS-1 or SFTS Rate Schedules;

3. Requested NNQ shall never exceed Shipper's MDTQ under Rate Schedule FTS-1 or SFTS.

Requests for NNTS service or changes in total NNQ for the Shipper shall be separately stated for each shipper division.

B. Redistribution of NNTS Service Levels - Transporter shall accept changes in NNQ distribution among divisions at any time Shipper requests such change, provided Shipper furnishes Transporter at least thirty (30) days prior notice of such requested redistribution and provided further:

1. Transporter is operationally able to provide such service without additional facilities, unless such Shipper(s) agrees to reimburse Transporter for additional facilities pursuant to the provisions of Section 21D of the General Terms and Conditions;

2. Shipper submits a valid request under Section 3 of the FTS-1 or SFTS Rate Schedules.

C. Assignment of NNTS Service - Transporter shall accept assignments of NNQ levels between SFTS and FTS-1 Shippers at any time upon ninety (90) days prior notice of such requested assignment provided further:

1. Transporter is operationally able to provide such service without additional facilities, unless such Shipper(s) agrees to reimburse Transporter for additional facilities pursuant to the provisions of Section 21D of the General Terms and Conditions;

2. Shipper desiring to take assignment of all or any portion of another Shipper's NNQ submits a valid request under Section 3 of the SFTS or FTS-1 Rate Schedules.

In no event may Shipper take assignment of NNQ such that the Shipper's total NNQ exceeds Shipper's MDTQ under Rate Schedule FTS-1 or SFTS.

4. NO NOTICE QUANTITY (NNQ)

The Shipper's NNQ shall represent the maximum level by which Shipper's daily deliveries may deviate above or below the Shipper's daily scheduled FTS-1 or SFTS transportation quantities up to Shipper's MDTQ, and be accounted for in Shipper's No-Notice Account, notwithstanding the tolerances set forth in Section 13D of the General Terms and Conditions. Pursuant to Section 13 of the General Terms and Conditions, daily deviations from scheduled quantities, but within NNQ, shall be accumulated in a No-Notice Account for each month, and such quantity shall be added to the amounts transported under FTS-1 or SFTS for purposes of determining Shipper's usage charges and applicable surcharges.

5. PACK AND DRAFT NOTICES

Quantities recorded in the No-Notice Account shall be subject to Pack and Draft Notices pursuant to Section 17.C.7., with the following exceptions: (1) Transporter shall not issue a Pack or Draft Notice if the combined month-to-date balance in the Delivery Point Operating Account and the No-Notice Account does not exceed the NNQ, and (2) a Shipper shall have until the nomination deadline on the day following Transporter's posting of a Pack or Draft Notice to submit an acceptable response to Pack and/or Draft Notice related to the greater of the quantities recorded in the No Notice Account (up to 200% of Shipper's NNQ) or Shipper's NNQ.

6. RATE

Unless otherwise mutually agreed to by Transporter and Shipper, the applicable rates for service under this Rate Schedule are set forth on the Currently Effective Rates for Rate Schedule NNTS of this Tariff. Shipper shall pay Transporter each month a Reservation Charge, which is in addition to the otherwise applicable charges under the applicable FTS-1 or SFTS rate schedule.

The Reservation Charge shall equal the Reservation Fee multiplied by the sum of the NNQ for the billing month in question.

7. RIGHTS UNDER SECTION 4 OF THE NATURAL GAS ACT

Transporter shall have the unilateral right to seek, through a filing under Section 4 of the Natural Gas Act (NGA) with the appropriate regulatory authority, to make changes in (a) the rates and charges applicable to its Rate Schedule NNTS, and/or (b) Rate Schedule NNTS pursuant to which this service is rendered, and/or (c) any provisions of the General Terms and Conditions applicable to Rate Schedule NNTS. Transporter agrees that Shipper may protest or contest filings of Transporter, or seek authorization from duly constituted regulatory authorities for such adjustment of Transporter's existing FERC Gas Tariff as may be found necessary in order to assure that the provisions in (a), (b) or (c) above are just and reasonable.

8. ADDITIONAL TERMS OF SERVICE

Except as expressly provided herein, all terms of the applicable FTS-1 or SFTS rate schedule, including the provisions of the General Terms and Conditions of Transporter's FERC Gas Tariff apply to Shippers receiving service under this Rate Schedule. As detailed in the Determination of Deliveries provisions of Section 13 of the General Terms and Conditions, Rate Schedule NNTS quantities shall be accumulated at the Delivery Point Operator Account level.

**5.** Referring to paragraph 38 of the petition, please discuss how injection and withdrawal costs are determined. Are they market-based, FERC determined, etc.?

**ANSWER:**

The withdrawal and injections rates are market based and defined within the service agreement with the storage provider and are currently $0.01000/MMBtu. The cost of commodity injected was estimated based on the NYMEX forward curves dated September 17, 2024.